

Results in Brief

*Jewel Companies, Inc.
Diversified Retailers*

Annual Meeting

Wednesday, June 21, 1978, 2:00 p.m.
C.D.S.T. at The First Chicago Center
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois

Transfer Agent and Registrar

Manufacturers Hanover Trust Company
Four New York Plaza
New York, New York 10015

Common Stock Listing

New York Stock Exchange
Midwest Stock Exchange

Corporate Office

O'Hare Plaza
5725 N. East River Road
Chicago, Illinois 60631

SEC Form 10-K

Copies of the Company's Annual Report
on Form 10-K as filed with the Securities
and Exchange Commission may be
obtained without charge upon request to:
Robert F. Berrey, Secretary
Jewel Companies, Inc.
5725 N. East River Road
Chicago, Illinois 60631

Skaggs Merger Announcement

On April 3, 1978, Jewel Companies, Inc.
announced an agreement in principle for
a combination with Skaggs Companies,
Inc. See the footnote on page 30 of this
Annual Report. Skaggs, with fiscal 1977
sales of \$902.2 million and net income
of \$20.4 million, operates drug stores
and combination drug/food super-
centers, principally in the West and
Southwest. Additional information con-
cerning this transaction will be forth-
coming following completion of a
definitive merger agreement.

Fiscal Year	1977	1976
<i>(In thousands except per share figures)</i>		
Sales	\$3,277,742	\$2,981,425
Earnings of U. S. Companies	\$ 22,061	\$ 24,109
Equity in Aurrera, S.A.:		
Earnings	4,786	8,747
Unrealized gain on foreign currency translation ..	103	3,309
Net Earnings	\$ 26,950	\$ 36,165
Earnings of U.S. Companies as a		
Percent of Sales .....	.7%	.8%
Consolidated Net Earnings as a Percent		
of Sales .....	.8%	1.2%
Net Earnings as a Percent of Shareholders'		
Average Equity	8.2%	11.6%
Earnings per Average Common Share		
Outstanding:		
Earnings of U.S. Companies	\$ 1.90	\$ 2.05
Equity in Aurrera, S.A.:		
Earnings .....	.41	.76
Unrealized gain on foreign currency		
translation .....	.01	.25
Net Earnings	\$ 2.32	\$ 3.16
Dividends Paid per Common Share	\$ 1.30	\$ 1.25
Average Common Shares Outstanding	11,576	11,507

1977 Report from Jewel's Chairman and President

Consolidated 1977 net earnings of Jewel Companies, Inc. were \$26,950,000 or \$2.32 per share, including non-recurring losses on facility dispositions amounting to \$.45 per share, compared to \$36,165,000 or \$3.14 per share in 1976. Excluding facility disposition losses, U.S. net earnings amounted to \$2.35 per share, versus \$2.14 per share in 1976, an increase of 10%. Jewel's earnings from its investment in the Mexican retailer Aurrera amounted to \$.42 per Jewel share, a decline of 60% from 1976 due primarily to the peso devaluation.

Dividends increased for the 13th consecutive year and totaled \$1.30 per share during 1977.

U.S. Results

Sales in 1977 amounted to \$3,277,742,000, a gain of 9.9% over 1976. Sales in identical units increased 6.4% with the balance of the increase relating to new facilities. Each of the companies except Turn*Style achieved record sales levels.

U.S. operating earnings before facility dispositions increased modestly in 1977. The major dollar contribution to this improvement came from more profitable operations of the Jewel Food Stores. Additionally, good earnings improvements were achieved by White Hen Pantry convenience stores, Outtrey Foods and Star Markets. Operating earnings of Osco Drug stores were up slightly, while substantial growth costs were absorbed.

A \$.10 per share reduction in the earnings of the 22 Turn*Style self-service department stores negatively impacted 1977. We also incurred a \$.09 per share earnings reduction resulting from closing three Turn*Style self-service department stores in Indianapolis, and their subsequent partial conversion to Osco Drug stores, and converting five Eisner Food Stores to Big E Warehouse Food Stores in Indianapolis. Less significant factors were coffee inventory losses in the Park Corporation, start-up costs for Jewel T limited-line discount grocery stores in Florida and a new Mass Feeding school lunch production facility in Moosic, Pennsylvania. Increased costs for retirement benefits for Jewel people also impacted 1977.

The \$9,242,000 pre-tax charge (\$.45 per share) for facility dispositions resulted from the sale of the Turn*Style stores (\$7,300,000 of the total) and the closing of Indianapolis Turn*Style stores and Star Market's Dorothy Muriel Bakery.

During 1977, Jewel Companies added 578,000 square feet of retail space net of store closings. In addition, 375,000 square feet of support facilities were added, principally for the Jewel Food Stores, Direct Marketing Division, Eisner Food Stores and Mass Feeding Corporation. The increase in investment tax credit of \$2,108,000, due to these higher capital expenditures in 1977, had a positive influence on net earnings.

Manufacturing output grew 14% in 1977 and represented approximately \$300 million of total Jewel Companies' sales.

Mexican Earnings

Although the 60% decline in Jewel's equity in the earnings of Aurrera may seem disappointing on the surface, the full story is not told by reporting the results as required by accounting standards. In pesos, Aurrera sales increased 31%, but earnings decreased 7% during the time period of Jewel's fiscal years.

Almost half of the unfavorable year-to-year comparison of the contribution from Aurrera relates to an unusual addition of \$.29 per share to the previous year's earnings. This addition was caused by foreign currency exchange translation of balance sheet items at the time of a major peso devaluation in 1976. The rest of the decline results from lower peso values in 1977 (4.1¢ during Jewel's fiscal 1977 as compared to 6.3¢ in fiscal 1976) and from a one-time change in timing of our reporting of Aurrera results. This timing change was designed to facilitate Jewel's fiscal year-end closing. This change has the effect of including only 11 Aurrera months in Jewel's fiscal 1977. A more detailed description of Jewel's investment in Aurrera begins on page 18.

*The Turn*Style Decision*

Jewel's 1976 Annual Report referred to a major review of Jewel's existing strengths and weaknesses. It described some of the assessments which were being made as a result of internal and external analysis. During 1977, teams of people within each of the Jewel companies worked in concert with a corporate team which included the Chairman and President. These people devoted considerable time to an intensive examination of the Company's current businesses and future directions.

A major result of this analysis to date was the announcement on March 7, 1978 that Jewel and The May Department Stores Company had reached an agreement in principle under which substantially all the assets of Jewel's 22 Turn*Style self-service department stores would be sold for cash to May effective not later than June 1, 1978. The May Co. will assume lease obligations for 19 stores, while our Company will maintain leases on two locations in Chicago which are being converted to other Jewel uses. One other location will be disposed of. Jewel will incur certain costs related to this transaction, and the costs which could be identified, amounting to \$.38 per share, were reserved on the Company's books as part of its 1977 fiscal year closing.

Jewel has operated Turn*Style stores since 1962 when it acquired five stores in Boston which have since been converted to Osco drug stores. While the Turn*Style division has been profitable in all but two of the last 10 years, it was not profitable in 1977 and its return on investment has not been satisfactory. The Venture Division of the May Company is a particularly attractive purchaser because, like Turn*Style, it operates the quality of store with which Jewel's supermarkets will be proud to share locations. Further, it is expected that Venture will offer excellent career opportunities to many Turn*Style people.

The agreement to sell Turn*Style reduces the demand on future Jewel capital to remodel and add new units and frees up approximately \$18,000,000 of capital currently invested in Turn*Style. In addition, the May Company assumes lease obligations with present values of \$35,000,000.

Financial Strength

Although the 1977 operating results were considerably less than we expected, the Company's balance sheet was further strengthened as planned. Inventories in relationship to sales and the ratio of payables to inventory dollars both improved. Receivables were reduced. Further influenced by a \$50 million long-term loan during the year, cash and marketable securities at year end increased \$27 million. The Company's year-end debt-equity ratio exclusive of real estate affiliates continues to remain favorable at 25.5% in 1977 compared with 23.5% in 1976 and 25.5% in 1975. \$71 million was invested in new stores and warehouses as well as store enlargements and remodeling to keep our existing facilities up to date.

Director and Management Changes

Franklin J. Lunding joined Jewel in 1931 and in June 1977 retired as a Director of the Company. In these 46 years of service to Jewel, he contributed brilliantly to the diversification of the Company, to the well being of its people, and to the philosophic foundation which serves us so well.

On December 31, 1977, Howard O. Wagner retired as Chairman of the Finance Committee and as a Director. Mr. Wagner contributed 38 years of outstanding service to the Company, gaining for himself a reputation as a distinguished financial executive and for Jewel a record of sound financial management. Lawrence Howe, the Company's General Counsel, succeeded Mr. Wagner as Chief Financial Officer and accordingly was elected Executive Vice President, Finance and Law.

On January 1, 1978, Richard E. George moved from Executive Vice President, Finance to Executive Vice President, Operations, Osco Drug, Inc. Mr. George is a highly talented young manager whose range of abilities is illustrated by this important change in assignment.

At the December 1977 Board of Directors meeting, three corporate vice presidents were elected: Lawrence J. Fernstrom, Jr., in charge of information systems; Charles E. McClellan, who is responsible for the corporate tax department; and Jo H. Armstrong, who has responsibilities for various operations including White Hen Pantry and Brigham's. Robert G. Robertson, formerly Vice President and General Manager of White Hen Pantry, was appointed President of that company, replacing Mr. Armstrong.

Two non-management Directors were elected by the Board during the year. On June 15, 1977, Robert W. Reneker was elected. Mr. Reneker retired in June 1977 as Chief Executive Officer of Esmark and currently serves as Chairman of the Board of Trustees, University of Chicago. James E. Olson, Executive Vice President of American Telephone & Telegraph Co., was elected to our Board on December 19, 1977.

Perspective

Over the past four years we have been concerned that the outstanding efforts of Jewel people have not produced total results commensurate with their contributions. Supermarket price wars, the impact of the Mexican peso devaluation, continued losses in Indianapolis and Milwaukee, and declining results and more recently losses in Turn*Style have provided a series of events greater than could be offset by the progress of other operations. Thus, our composite earnings from operations have been flat. As trying as these events have been, never during this difficult period have we had anything but admiration for the ability, the dedication and the service orientation of all Jewel people.

We've lost a few years of the type of earnings growth we expect, but with solutions to several key problems, particularly in 1977, we are confident that 1978 and beyond will be good years of earnings progress for Jewel shareholders and Jewel people.

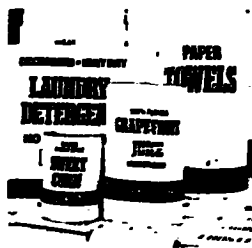


D. S. Perkins
Chairman



W. R. Christopherson
President

The Supermarket Companies



	1977	Plan 1978
Jewel Food Stores		
Stores—beginning of year	240	234
New stores opened	7	5
Stores closed	13	11
Stores—end of year	234	228
Total square feet (In thousands)	6,804	6,915



	1977	Plan 1978
Eisner Food and Agency Stores		
Stores—beginning of year	34	32
New stores opened	2	1
Stores closed	1	1
Stores—end of year	32	32
Total square feet (In thousands)	732	715
Affiliate stores	50	55



	1977	Plan 1978
Star Market Co.		
Stores—beginning of year	61	61
New stores opened	1	—
Stores closed	1	—
Stores—end of year	61	61
Total square feet (In thousands)	1,795	1,795



	1977	Plan 1978
Buttrey Food Stores		
Stores—beginning of year	13	47
New stores opened	1	2
Stores closed	—	—
Stores—end of year	17	19
Total square feet (In thousands)	1,169	1,222

Supermarkets

	1977	1976
Sales	\$2,419,475	\$2,173,561
Percent to total Jewel sales	73.8%	72.9%
Operating Earnings	\$ 40,966	\$ 33,041
Percent to total Jewel operating earnings	63.0%	51.9%
Identifiable Assets:		
Jewel Companies, Inc.	\$ 383,575	\$ 367,071
Real estate affiliates	130,816	120,891
Total identifiable assets	511,391	487,962
Less current liabilities	142,199	129,489
Net assets	\$ 372,192	\$ 358,473
Capital Expenditures (net)	\$ 47,071	\$ 41,263
Depreciation Expense	\$ 33,810	\$ 30,114

JEWEL FOOD STORES



Walter Y. Elisha
President

Each year brings new challenges and opportunities, and 1977 was no exception. Jewel people anticipated, planned and implemented in a manner that served Jewel customers well, resulting in record sales and substantially improved earnings.

At the outset of the fiscal year, we changed our store supervisory organization. Our purpose: to simplify the reporting relationships; to bring added help and support to store management; to emphasize store performance and customer service; and to manage expense dollars more carefully.

Focus on the Basics

Out of these organizational decisions and changes grew a theme: "Focus on the Basics," and much of what we accomplished in our stores this year can be described as "basic."

- *Farm Stand University*

This approach to training involved all store people and supervisors responsible for the marketing of fresh fruits and vegetables. Each attended a series of classes based on updated Jewel policies and gained clear, basic, practical knowledge of the variety of products they worked with and their care.

- *Food Store Sanitation*

Our quality assurance and training teams worked with the Food Marketing Institute and with Federal, state and local agencies. They developed a streamlined program for re-emphasizing basic sanitation and food handling principles and practices. Almost 500 Jewel Food Store people have completed this course. Those in Illinois received food service sanitation certificates from the Illinois Department of Public Health.

- *Meat Departments*

In Chicago, changes in union work rules allowed the sale of fresh meat after 6:00 p.m. and on Sundays for the first time in 25 years. Our meat department merchandising and supervisory teams used this as an opportunity to stress the basics. . . new plan-o-grams for display cases, retraining on Jewel's famous Extra Value Trim, more variety than ever, and a major meat department campaign: "When you know meat. . . you know it's best at Jewel." Results are gratifying.

- *Inventory Control*

We undertook a major effort in 1977 to be better managers of our inventories in all departments. An Inventory Task Force was established, its membership drawn from all areas of our business. An Inventory Investment Manager has been assigned, and a sharp reduction in outside inventories and in the use of outside facilities has resulted. We ended the year well below our budgeted inventory levels, without compromising variety or availability.

Watching the Horizon

Jewel people long have had a reputation for innovation, and they enhanced this reputation in 1977. Two major merchandising thrusts were:

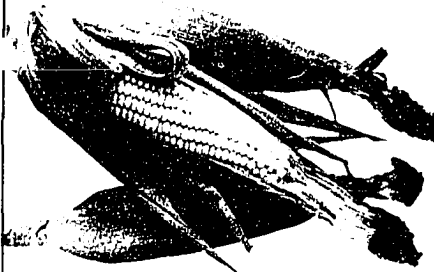
- *Farm Stand*

Initiated during 1976 and fully implemented during 1977, *Farm Stand* represents the bulk display of fresh fruits and vegetables at a time when nearly all sell these items prepackaged. We believe our customer wants to select her own produce and the quantity rather than be limited to prepack items. Sales results suggest quite strongly that our customers appreciate *Farm Stand*.

- *Generic Product*

Much has been said and written about Jewel's introduction of generic labeling. National media coverage has tended to glamorize a product offering so basic that it played almost a symbolic role in Jewel's 1977 attention to "the little things." Generic represents our commitment to constantly seek new ways to bring our customers greater value. We ended the year with 95 "no-name" items available in 112 of our stores.

Jewel's FARM STAND sweet corn



outstanding in its field

What makes our sweet corn so outstanding? It's the way it's grown. Our sweet corn is grown in the heart of the Midwest, where the soil is rich and the weather is just what it takes to grow the best sweet corn. Our sweet corn is grown in the heart of the Midwest, where the soil is rich and the weather is just what it takes to grow the best sweet corn. Our sweet corn is grown in the heart of the Midwest, where the soil is rich and the weather is just what it takes to grow the best sweet corn.

FARM STAND



A dramatic development at Jewel Food Stores has been the change from packaged produce to the attractive, basic bulk Farm Stand appearance.

Other Highlights

- We opened seven new stores, remodeled six and enlarged six, while closing 13 outmoded stores.

We opened a new perishable terminal, adding to our variety offering while reducing product costs.

We completed the shift from gasoline to diesel semi-tractors, reducing our costs while increasing our miles per gallon. Jewel Food Stores operates 300 tractors as part of our distribution fleet.

We experienced strong gains in identical store sales, notably in the Chicago suburban areas.

We achieved record sales and earnings from our manufacturing facilities.

Though still below the level that we believe they should be, our earnings

**When
you know
meat,
you know
it's best
at Jewel.**



"Focus on the Basics" stressed a reemphasis on Extra Value Trim through a major meat department campaign: "When you know meat, you know it's best at Jewel!"

increased 38%. Margins are returning to more appropriate levels following the disruption of the 1975 Chicago Price War. At the same time, increased costs, notably in energy, payroll, taxes and insurance, suggest that margin levels will continue to be pressured.

We are pleased with the accomplishments of Jewel people in 1977. Their energy, ability and creativity are reflected in our results and give us good reason to be confident about the future.



Applying supermarket techniques to live growing things has resulted in a thriving floral business done at in-store shops.

EISNER FOOD & AGENCY STORES



David L. Diana
President

Eisner Food Stores operates manufacturing facilities, conventional supermarkets, Big "E" Warehouse Foods and the Eisner Wholesale Division.



Eisner operates nine Big "E" Warehouse Food Stores. Eight are located in Indianapolis and one in Springfield, Illinois.

The Year in Review

During 1977, supermarkets were opened in Normal and Rantoul, Illinois. These two new stores replaced three outdated facilities. A substantial enlargement and upgrading of the Bloomington, Indiana store was completed during the year with favorable results. A small supermarket in Clinton, Illinois was sold and is now a profitable account being served through the Eisner Wholesale Division.

Store improvement activity will continue during 1978 with one new unit and two major remodels scheduled for completion by year end. All of these will be with Osco.

Eisner Bakery

The Eisner bakery operations produced another successful year. Total shipments to Eisner stores and Agency accounts, and to those Jewel Food Stores served, increased by 7.1% during 1977. Market positioning for the future is even more significant. Product lines were expanded; new market opportunities were explored; and a new oven is scheduled for installation in early 1978. The outlook for profitable bakery manufacturing opportunities is good.

Big "E" Warehouse Food Stores

During the past two years, Eisner people have developed their concept of the limited-line, no-frills "warehouse" food store. Basic to the concept is the reduction or elimination of



Eisner's Wholesale Division serves 50 accounts in Illinois and Indiana.

operating overhead. As a result, customers find consistent everyday prices from 10% to 40% below the regular prices of similar items in a conventional store. The lower price structure is a function of greater productivity through reduced variety, limited store hours and the discontinuance of many traditional services, including check cashing, parceling and carryout.

Late in 1976, three Eisner supermarkets in Indianapolis were temporarily closed and reopened as Big "E" Warehouse Food Stores. This achieved a major market differentiation for Eisner in the highly competitive Indianapolis marketplace. Responding to positive consumer acceptance of this marketing concept, five remaining Eisner-Osco combination



A complete line of breads, rolls, cakes and sweet goods are featured in Eisner in-store bakeries.

units were converted to Big "E"-Osco side-by-side stores in August 1977. These conversion costs and the radical change in concept significantly impacted 1977 profit results.

With one older and smaller unit located in Springfield, Illinois converted to a Big "E" in December 1976, Eisner now operates nine of its 32 corporate stores under this marketing format. Big "E" offers food shoppers the attractive choice of less variety and service in favor of lower prices.

Eisner Wholesale Division

The Eisner Wholesale Division, which has shown consistent growth since its inception in 1963, completed another successful year and accounted for 18.1% of total Eisner sales during 1977. Fifty Eisner Agency or Star Market stores are served in Illinois and Indiana. The average wholesale account increased sales per week per store by 10.2% over 1976. Development of new stores and new territories is expected to proceed at an accelerated rate during the coming year.

STAR MARKET CO.



*James H. Henson
President*

Star experienced another year of healthy growth in 1977. Continued effort to be the quality leader has helped Star surpass budgeted sales and earnings. Although gains were made throughout the organization, performances in Rhode Island and New Hampshire were particularly encouraging.

Energies were directed to increasing volume in all stores. Improvements were made through better advertising and promotional programs and through reinforcement of our new company logo and identity. Star also strengthened its private label program, introduced generic, "no-name" products, and converted two stores to the warehouse format.

Capital investment was made primarily in existing facilities, including remodeling in three stores and minor remodeling in several others. One store was opened in Rhode Island; one closed in Massachusetts.

Innovations

Star received national media recognition from its introduction of no-name generic products, a first in New England. The first "Family Center" opened in Pawtucket, Rhode Island. It is the largest supermarket in Rhode Island and a joint Star/Osco management effort. Two Massachusetts units were converted to the warehouse format under the name "Massfood Stores."



During 1977, Star strengthened its quality leader reputation with a campaign emphasizing "Person-to-Person Meat Service."



Seafood-from-Star continues to be a tradition with Boston shoppers.

Service to the Customer

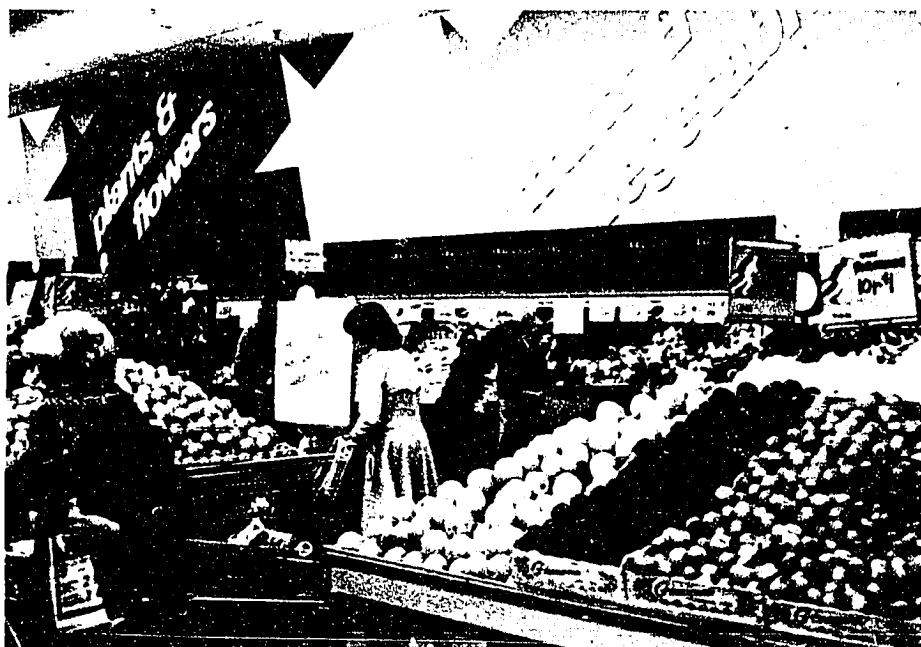
Star Markets initiated an in-store circular program, offering customers a preview of next week's specials. The Star "Person-to-Person Meat Service" campaign began in 1977, and Star was the first in New England to offer an in-store system of verification for check cashing.

People

During a record Christmas week, management and office people contributed 106 man-days to customer service in the stores. In 1977, 84 people were promoted to management positions, including 22 women and minorities.



Star's first "Family Center" opened in Pawtucket, Rhode Island. It is the largest supermarket in the state and a joint Star/Osco management effort.



Major remodeling throughout the year featured the new Star logo in all department decor.



Introduction of generic, "no-name" products was a first for Star in New England.

Sales/Marketing Developments

- The Star "Red Sox Home Run Sweepstakes" shared the excitement of the greatest Red Sox home run season in history. Over 11 million entered the Sweepstakes.
- Localized marketing plans enabled the company to better serve our ethnic customers.
- Special merchandising programs were developed for the New Hampshire market.
- Increasing costs and resulting obsolescence of plant and equipment caused the closing of the Dorothy Muriel Bakery. Comparable bakery products are now being manufactured exclusively for Star by an outside supplier.
- Three stores received major remodeling with an in-store Bake Shop added to each.
- Approximately 100 items were added to Star's private label program, bringing the total to 600 items.
- Private label sales campaigns strengthened customer acceptance of the program.
- The new logo won a "Design of the Year" award from the National Fleet Owners Magazine.

Outlook

In 1978, Star's efforts will concentrate on building internally. No new stores are planned, but five existing facilities will be remodeled. The new company identity program will continue through use of the logo in remodeling and through strengthening of the private label program.

Star expects the generic, no-name line to continue to draw customer support. Plans include the addition of selected high-volume items to the line.

BUTTREY FOOD STORES



*Philip R. Palm
President*

Buttrely Food Stores in 1977 achieved its eighth straight year of increased sales and earnings. Identical unit sales gained steadily throughout the year, finishing the year 8.4% ahead of 1976 results.

Expansion for the year was concentrated in the energy-rich Powder River Basin coalfield. This area extends from eastern Montana through northeastern Wyoming and into western South Dakota. Buttrely Foods opened four new stores in this area during 1977.

The Laramie, Wyoming store opened as a food/general merchandise Buttrely Super Store. The other three stores were in combination with Osco Drug: Cheyenne and Gillette, Wyoming and Billings, Montana. These four new stores increased Buttrely Foods' overall square footage by 10%.

The Buttrely-Osco combination has proved to have the drawing power that ensures early success in new markets. In joint venture locations, both Osco and Buttrely work together to bring the customer the best each has to offer. Store layout allows each company to maintain a separate image, while the customer retains the convenience of one-stop shopping.

Another ingredient of new market success is Buttrely's emphasis on store-level responsibility with a minimum of field supervision. Although Buttrely



This meat department in Cheyenne, Wyoming is one of 36 served from Buttrely Foods' own meat processing plant in Great Falls, Montana.

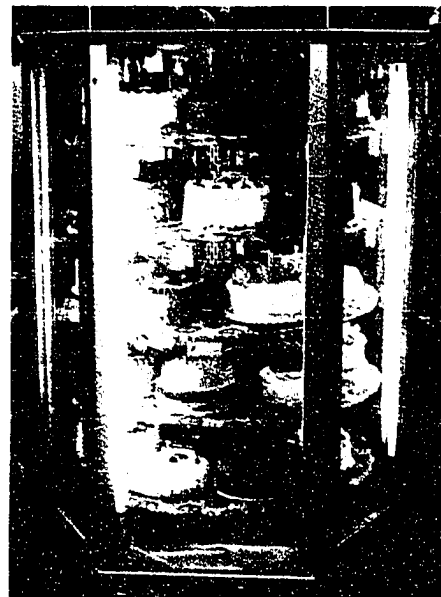


Buttrely Foods' produce departments receive weekly delivery from Buttrely's consolidation terminal in Salinas, California.

management people based in Great Falls, Montana spend much of their time maintaining frequent, face-to-face contact with store people, the distances involved still require decentralized store management.

Buttrely Foods' in-store bakeries continue to be strong contributors to profits. Over the years, in-store bakeries have established for the company a reputation for both quality baked goods and for a distinctive store image. The "neighborhood bakery" is in 41 of its supermarkets.

Buttrely Foods, now 47 stores in seven states, looks forward to another good year in 1978. Two new stores are planned for existing markets in the intermountain area.



In-store bakeries have helped Buttrely Food Stores establish a reputation for quality baked goods.

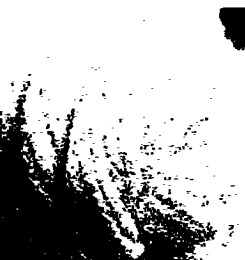
The General Merchandise Companies



Oscor Drug Stores	1977	Plan 1978
Stores—beginning of year	223	245
New stores opened	17	34
Conversions	8	—
Stores closed	3	9
Stores—end of year	245	270
Total square feet (In thousands)	1,242	1,633



Republic	1977	Plan 1978
Stores—beginning of year	5	5
New stores opened	—	—
Stores closed	—	—
Stores—end of year	5	5
Total square feet (In thousands)	188	188



Turn*Style	1977	Plan 1978
Stores—beginning of year	28	21
New stores opened	1	—
Conversions	(8)	—
Stores closed	—	21
Stores—end of year	21	—
Total square feet (In thousands)	2,197	—

General Merchandise

	1977	1976
Sales	\$651,888	\$617,423
Percent to total Jewel sales	20.0%	20.7%
Operating Earnings	\$ 19,196	\$ 22,967
Percent to total Jewel operating earnings	29.5%	36.0%
Identifiable Assets:		
Jewel Companies, Inc.	\$172,807	\$157,298
Real estate affiliates	47,009	46,017
Total identifiable assets	219,816	203,315
Less current liabilities	47,393	42,619
Net assets	\$172,423	\$160,696
Capital Expenditures (net)	\$ 17,397	\$ 9,884
Depreciation Expense	\$ 9,482	\$ 7,916

OSCO DRUG INC.



*Richard G. Cline
President*

General merchandise consolidated operating earnings declined 16.5% in 1977. While Osco Drug stores improved modestly, Turn*Style stores experienced a net loss for the year.

Osco Drug Stores

Osco Drug stores, the largest of Jewel's general merchandise retail businesses, achieved record high sales and earnings. Trailing 1976 for the first half year, drug store earnings accelerated to finish ahead of last year on a 9.9% sales increase. Sales in identical units increased 4.4%.

Drug store start-up costs were higher for the 34 new, relocated and remodeled stores in 1977 compared to 19 such stores in 1976. In Boston, merchandise close-out, equipment write-offs and other expenses were required to close one former Turn*Style and convert a second from a discount store to a 14,463 sq. ft. drug store. Now, all of the former New England Turn*Styles are consistent with our drug store program.

While drug store gross margins were up, sales gains narrowed in December and January. In 1976, an aggressive merchandising response to the citizens band radio craze added significantly to sales during and after Christmas. Comparisons this year suffered from a lack of similar sales and from the unusually severe winter weather experienced in January 1978.



Osco's third store in Springfield, Illinois opened early spring 1977. New mall stores in medium-sized communities are an important part of the 130-store 4-year Osco Drug growth program.



The cosmetic and card sections are key merchandising presentations in an Osco Drug store.

*Turn*Style Discount Stores*

Turn*Style experienced a difficult year in 1977. With intensified competition, sales declined 2.6% from the prior year despite added sales from one new Chicago store which opened early in the year. Sales in this store did not meet expectations. Conversion of Indianapolis Turn*Style stores to drug stores also reduced earnings. (See "New Directions in Indianapolis" following.)

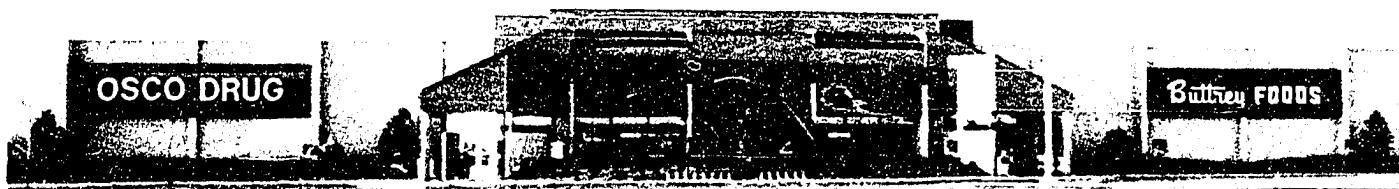
Republic Lumber

Operating results improved in our five Republic home improvement stores. Programs to reduce overhead and to strengthen store management teams early in the year began to show effect in the last half of 1977. Sales improved 11.9% over 1976.

New Directions in Indianapolis

Jewel Companies entered the Indianapolis market in 1970 with both food and general merchandise stores. Early in 1977, we decided that results required a change in strategy.

The eight Indianapolis facilities were totally reconfigured to fit a new marketing approach. Beginning in July, the drug store portions of the five Eisner-Osco stores were completely remodeled to improve their layouts and to enlarge the sales areas. The three Turn*Style stores were closed and remodeled into large drug stores. The remaining space was made available for other retailers. Excess space in two of the three former Turn*Style locations has been leased at rentals that cover costs.



This new Buttrey-Osco store in Cheyenne, Wyoming was one of three combination stores opened in 1977 in the fast-growing intermountain area.

The eight facilities reopened in November as promotional drug stores with a single marketing format. Sales results since have exceeded expectations. (Changes in the Eisner facilities and marketing approach are described on page 6.)

Although write-offs, other costs and additional investment—as well as extraordinary time and effort on the part of all people involved—were required to accomplish changes in Indianapolis, our position in this market is now greatly enhanced. Real estate work has begun to secure additional locations that will expand drug store coverage in the market.

Drug Store Growth

In 1977, Osco accelerated its drug store growth program toward a plan to add 130 stores in the years 1977 through 1980. This is a growth of 58% over the 1976 base. The greater share of new store capital is targeted for existing markets where additional stores will strengthen Osco's position and build on reputation and marketing cost bases already established. Of 17 new drug stores in 1977, only three were in new markets. Eight new locations in 1977 were opened in conjunction with a Jewel, Eisner, Star or Buttrey food store.

To support drug store growth plans, 503 college trained men and women were recruited for our store management training programs during the year. Osco also hired 48 pharmacists, many of whom will later choose an Osco Drug management career.

To further develop our management resources for Osco's future, we strengthened training programs offered through our 10 training centers in various parts of the country. We also launched an audio visual training program for use by store sales clerks as well as management trainees.

Management Changes

In January 1978, our store operations were reorganized into regional operating divisions. This change will enhance our ability to blend our desirable decentralized operating approach with more consistent and unified merchandising and advertising programs where appropriate.

Other Highlights of 1977

- The ratio of consolidated overhead expenses to sales was reduced for the third consecutive year.
- The Crest Photo film processing plant was expanded by 10,000 sq. ft. Crest earnings improved 63.3% over 1976.

- The 271,000 sq. ft. hard goods distribution center received layout and operating systems revisions. This resulted in improved efficiency, throughput and store service.
- A computer systems manager was hired and the EDP staff strengthened. This will upgrade capabilities with electronic point of sale, electronic cash registers, distribution and other systems needs.
- The chain celebrated its 40th anniversary. The first Osco opened on April 17, 1937 in Rochester, Minnesota.

Growth Enhances Drug Store Outlook

We are optimistic about the implications of Osco's growth program for the years ahead. Results of new stores opened in 1977 are exceeding expectations, and these stores will become increasingly important contributors to sales and earnings.

In 1978, 34 new stores and 10 major expansions are planned. New store activity will continue to focus on existing markets, and new market entries will be in smaller cities where adequate coverage can be achieved with one or two stores.

Other Diversified Jewel Companies



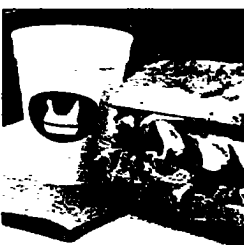
	1977	Plan 1978
Brigham's		
Stores—beginning of year	105	96
Stores opened	—	1
Stores closed	9	2
Stores—end of year	96	98
Total square feet (In thousands)	280	288



	1977	Plan 1978
Direct Marketing Division		
Routes—beginning of year	1,374	1,301
New routes opened	—	—
Routes closed	73	56
Routes—end of year	1,301	1,245
Jewel T Stores		
Stores—beginning of year	—	11
New stores opened	11	21
Stores closed	—	—
Stores—end of year	11	35
Total square feet (In thousands)	78	250



	1977	Plan 1978
Mass Feeding Corporation		
Meals served (In thousands)	36,519	17,657



	1977	Plan 1978
White Hen Pantry		
Stores—beginning of year	217	213
New stores opened	—	25
Stores closed	1	3
Stores—end of year	213	235
Total square feet (In thousands)	541	596

Other Operations

	1977	1976
Sales	<u>\$203,379</u>	<u>\$190,445</u>
Percent to total Jewel sales	6.2%	6.4%
Operating Earnings	<u>\$ 4,869</u>	<u>\$ 7,725</u>
Percent to total Jewel operating earnings	7.5%	12.1%
Identifiable Assets:		
Jewel Companies, Inc.	\$ 60,171	\$ 55,798
Real estate affiliates	<u>1,018</u>	<u>1,051</u>
Total identifiable assets	61,192	56,849
Less current liabilities	<u>15,953</u>	<u>13,478</u>
Net assets	<u>\$ 45,239</u>	<u>\$ 43,371</u>
Capital Expenditures (net)	<u>\$ 1,643</u>	<u>\$ 1,245</u>
Depreciation Expense	<u>\$ 1,215</u>	<u>\$ 4,229</u>

BRIGHAM'S



*Richard P. Johnson
President*

Sales

Brigham's retail sales in 1977, including franchise stores, increased by 1.7%. Identical store sales increased 5.6%.

Brigham's New Direction: Franchising

A franchising program was introduced in 1977, marking a dramatic shift in the manner in which Brigham's does business. Instead of hiring store managers, Brigham's is now advertising for owner/operators.

Brigham's primary aim is to find the most highly qualified owner for each store. Emphasis has been placed on evaluating each applicant's operating abilities, the goal being to find the people who gain personal satisfaction from meeting and serving others while personally operating their own businesses.

Brigham's and the owner each contribute to the partnership. Brigham's provides much of the administration and support services, so the owner is able to devote his or her time to operating and developing the business on a day-to-day basis. Improving customer service and maintaining Brigham's reputation for high-quality products are key aspects of the owner's responsibilities.

Each owner candidate completes an orientation program to understand operating systems and standards, product preparation and presentation and sanitation and housekeeping policies. Successful completion of the program is a prerequisite to ownership. After training, Store Counselors work closely with owners to support and reinforce what was learned.



We'd like to welcome the Kupelnick family to the Brigham's family.

We're proud to announce that Jack and Barbara Kupelnick are the proud new owners of our Belmont store at 2 Trapelo Road. It's all part of our move to make sure that Brigham's tradition of warm personal service becomes even more warm and personal. So welcome if you will, the Kupelnick family to the Brigham's family. We hope they'll become your warm personal friends.



John Marchesseault, Vice President of Franchising (left) and Enzo Rotatori, Store Counselor (far right) welcome Jack and Barbara Kupelnick to the Brigham's family.

Between June and the end of the fiscal year, 27 Brigham's locations were franchised. The speed with which these units were franchised supports the decision that Brigham's has an attractive franchise to offer.

Progress to date indicates that the increased proprietary interest of franchising adds to Brigham's profitability. Plans call for Brigham's to continue to franchise its Sandwich Shops during the next fiscal year.

DIRECT MARKETING DIVISION

*Jewel Home Shopping Service
Park Corporation
Jewel T Discount Stores*



*Betty M. McFadden
President*

The Jewel Home Shopping Service, now in its 79th year of operation, completed its 57th consecutive year of profitability. It serves one-half million customers in 40 states. Each salesperson serves about 400 accounts.

In the last few years, company objectives have been to limit reliance on consumer credit, moving more to a cash business, and to consolidate route count while achieving higher productivity levels per route.

The development of toy and gift parties has helped achieve these objectives. Because these party programs have met with success, a jewelry party program has been developed for spring of 1978. Party-plan selling continues to be a good growth opportunity.

Prior to 1971, the Park Corporation was primarily a manufacturer and packager for the Jewel Home Shopping Service and other Jewel companies. During the past six years, Park has developed a group of private label products, including coffee, tea, instant orange breakfast drink, baking mixes, baking soda, dishwashing and laundry detergents and cleaning helpers.

Park products are now sold to over 475 companies, including many grocery chains and several large institutional users. Production volume is kept high through contract packaging with several leading food marketing companies.

While Park's institutional business is primarily coffee, additional items have been developed, such as gelatin desserts, puddings, baking soda, powdered drink mixes and tea products. The institutional market—restaurants, hotels, hospitals and schools—is becoming a major factor in the food industry. Park expects to share in that growth in the coming years.

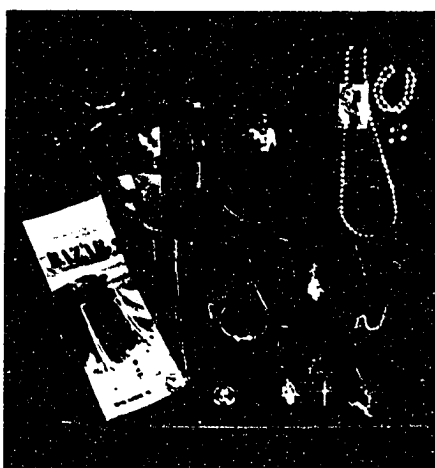
The first Jewel T limited-line discount grocery store opened in Florida in the spring of 1977. Through year end, ten additional stores opened in that market. These stores are designed to offer customers an opportunity to purchase basic dry grocery needs at appreciably lower prices. The stores eliminate all but the most essential services and utilize lower rent or "second-use" locations.

These "no-frills" stores offer approximately 400 non-perishable basic grocery items. They do not price mark each item, but rely on informative display signs and memory checking at the cash register. The stores offer no bags or carry-out service, cash no checks and present all merchandise in shipping cases. The labor cost to operate a Jewel T is a fraction of the labor cost needed in a conventional supermarket.

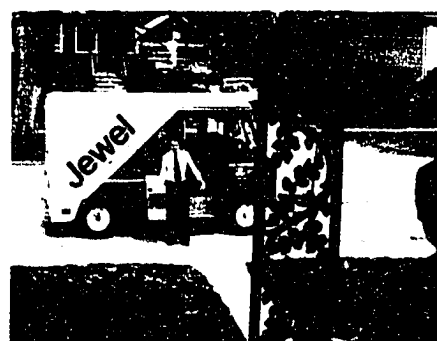
The pricing policy of these stores is simple: over 400 items are on "special" all the time. Prices are changed up or down only when replacement purchases result in cost changes. Sales growth to date is encouraging. Positive customer reaction causes us to believe that this form of retailing can represent a new growth opportunity for the Direct Marketing Division.



The no-frill Jewel T stores present all merchandise in shipping cases. They do not price mark each item, but rely on display signs and memory checking at the register.



A jewelry program has been developed for party-plan selling in spring of 1978.



The Jewel Home Shopping Service reaches one-half million customers in 40 states.



Toy party selling has helped the Jewel Home Shopping Service achieve higher productivity per route.

MASS FEEDING CORP



*Thomas F. Harwood
President*

The need for nutritionally well-balanced school lunches has been supported by Congress through the National School Lunch Act. Many of our nation's schools located in central areas of major cities lack on-site food service facilities and are physically incapable of accommodating kitchens. Responding to this specific food service need, MFC was founded in 1969 on a concept of high-quality, frozen meals reconstituted in the schools using space-saving, high-speed convection ovens.



This new food assembly plant near Scranton, Pennsylvania expands MFC's service capability in the Mid-Atlantic and New England areas.

In 1977, MFC achieved its seventh consecutive year of sales growth. MFC also added substantially to its food preparation capacity by acquiring a portion-controlled food assembly plant near Scranton, Pennsylvania. Coupled with the MFC-Elk Grove Village kitchens, this new facility expands MFC's capabilities to more efficiently serve school systems in the Mid-Atlantic and New England areas.

During the year, MFC also pioneered student opinion surveys and taste tests with elementary school children to better understand the likes and dislikes of its young customers.

MFC prepares lunches for thousands of youngsters with speed and efficiency. However, a commitment to a philosophy of care and concern for children dominates operating policies and practices. Subject to continuous on-site inspection by the United States Department of Agriculture, strict specifications are diligently adhered to for all food products used in MFC lunches. Production kitchens are staffed by professional food technologists, microbiologists and food chemists who implement sophisticated quality control procedures.

MFC expects continued growth in 1978. The challenge remains the same: providing children with good nutrition and enjoyable lunchtime experiences at prices taxpayers can afford.



Production kitchens are staffed by professional food technologists, microbiologists and food chemists.



MFC pioneered taste tests to better understand the likes and dislikes of its young customers.

WHITE HEN PANTRY



Robert G. Robertson
President

For White Hen Pantry, 1977 was a year of record progress and accomplishment. Both the company and its franchised owner/operators prospered.

"Partners in Progress" characterizes the relationship between the company and its owner/operators. Through this mutual commitment, White Hen Pantry successfully offers an exceptional brand of convenience and service to busy customers. The partners share in the rewards of the business.

Providing fast, "fill-in" shopping service at handy locations is what the convenience store business is all about. White Hen Pantry is respected as a pacesetter in this increasingly dynamic segment of the retailing industry.

- In 1957, there were approximately 500 convenience stores in the U.S. with total sales of \$75 million.
- In 1977, there were approximately 33,000 stores with more than \$8 billion in sales. (At year end, there were more convenience stores in the U.S. than supermarkets.)
- In 1980, it is estimated that there will be 37,000 convenience stores with over \$10 billion in sales, representing 8% of total retail food sales.

With this growth pattern, White Hen Pantry's prospects for the future are excellent, building on a firm foundation developed over the 13 years since the first store opened. Sound growth will be accomplished essentially through the continued expansion of existing markets. White Hen also sees growth opportunities in the acquisition of compatible convenience store operations and in the licensing of the White Hen Pantry program to new markets not presently served.

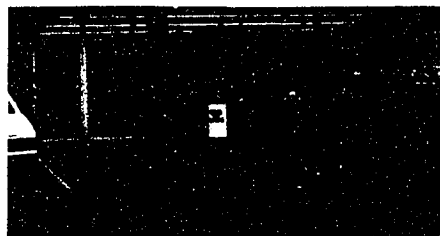
The "Partners in Progress" commitment begins with individual family ownership operating each store. Qualified individuals can go into business for themselves with an investment of approximately \$20,000, a portion of which can be financed over the initial three-year term of the agreement. About three-quarters of the money is for store inventory. The remaining money is divided between a security deposit, a processing fee and other nominal fees for licenses and supplies. The current investment return is a "guaranteed store income" of \$24,000 a year. The operator can build on this profit base according to his or her own ability by working closely with the White Hen Pantry staff. During 1977, owner/operators averaged nearly \$29,000 in earnings. Some exceeded \$60,000.

White Hen Pantry receives a percentage of store sales revenue. In turn, it provides a fully equipped and stocked store as well as training and ongoing business counseling for the owner/operators. In addition, White Hen Pantry pays the rent for the building and handles and covers the expenses for all advertising, merchandising, accounting services and business insurance for the owner. A group insurance plan is available to owner/operators on an optional basis.

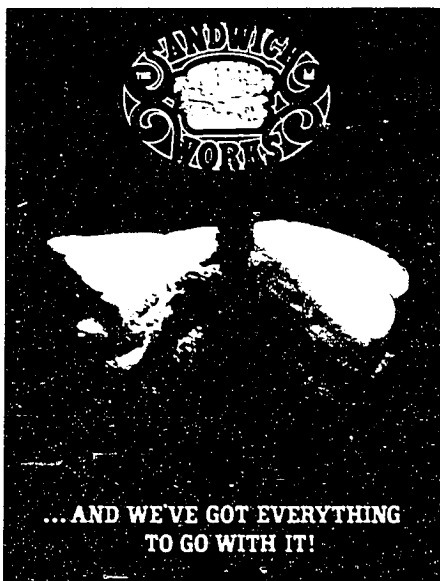
White Hen Pantry's primary concern is with the success of the owner/operators. Guiding them toward a successful and growing enterprise ensures Jewel a healthy return from its own investment and efforts.



The "Partners in Progress" commitment is carried out through store counselors who provide ongoing business counseling for the owner/operators.



The main objective of the White Hen Pantry business is to provide fast, "fill-in" shopping service at convenient locations.



Aurrera, S.A.



The shop concept is used to merchandise many products in Aurrera's 46 self-service discount stores.

Aurrera, S.A., Mexico's largest publicly owned retailer, represents a major investment for Jewel. Aurrera operates three successful subsidiary companies:

- **Almacenes Aurrera**, with supermarkets and combination food/general merchandise self-service discount stores.
- **Vips**, family-style restaurants.
- **Suburbia**, fashion apparel for the family.

The subsidiary companies of Aurrera employ over 11,500 people and distribute the products of over 6,000 manufacturers, distributors and agricultural producers in Mexico. Only a small portion of sales are imported products.

The Aurrera organization serves all socioeconomic classes. Though its units are located mostly within metropolitan Mexico City and the Federal District, Aurrera has discount stores in Puebla, Toluca and Cuernavaca, and restaurants in Acapulco and Toluca.

The leadership of Aurrera in every aspect of food and general merchandise retailing has been the key to its remarkable growth from one store in 1957 to its position of prominence today. From the development of the highly successful Gran Bazar hypermarket in Mexico City to the highly disciplined operation of restaurants, Aurrera people excel and Mexican customers respond. Jewel is proud to be associated with a company which has the achievements and reputation of Aurrera.

Commenting in their Annual Report on Aurrera's fiscal year ending July 31, 1977, Mr. Jeronimo Arango, Jr., President of the Board of Directors, said:

"In the last fiscal year, the country has confronted a severe and complex economic situation in which managerial capacity and initiative have been put to the test.

"In response to that economic challenge, Aurrera has strengthened the thrust of its expansion by investing 290 million pesos (*approximately \$16.2 million*) in extending its customer service network and in the creation of 900 new jobs.

"In the same manner, Aurrera has taken the initiative in the market by adopting, as of the second half of the month of April, 1977, an aggressive discount pricing policy in its self-service units.

"The consolidated financial statements of the Aurrera organization, for the fiscal year 1976/1977, show positive results, if the severe economic crisis facing our country is taken into consideration. Total sales of goods and services increased 39% over the last year and were in excess of 7.3 billion pesos (*approximately \$358 million*) for the year.

"In a highly inflationary period, with considerable increases in the cost of materials, services and personnel and, most of all, with the reduction in the gross margins of our operations in the self-service areas, we have achieved better results than in the prior year and obtained net earnings of over 310 million pesos (*approximately \$14.3 million*)."

Because Jewel's fiscal year ended on January 28, 1978 and Aurrera's on July 31, 1977, Jewel's reported earnings from Aurrera include the last half of Aurrera's 1976-77 fiscal year and the first five months of its current 1977-78 fiscal year. Aurrera results in its 1977-78 fiscal year have continued to show excellent improvement. From August 1 through December 31, sales increased by 45% over the same period in the prior year. Earnings in pesos during those months increased 19%.



One of five Suburbia stores specializing in fashion apparel for the family.



The warehouse presentation has been very effective in several of Almacenes Aurrera's discount stores.

The increase in sales has been spread throughout the company's three major divisions.

Compound Growth for Fiscal Years Ending July 31, 1977	Sales		Net Earnings	
	Latest Year	Last Five Years	Latest Year	Last Five Years
Self-Service Discount Stores.....	38.8%	29.6%	(3.7)%	21.6%
Restaurants	36.2	43.4	11.7	50.4
Fashion Apparel Stores	37.8	67.0	80.4	150.1
Consolidated	38.6	31.4	4.7	28.8

Aurrera, S.A. has paid dividends on a regular basis since 1973. The dividend payments for each of the past two years have been 50% of the prior year's annual earnings.

Fiscal Year	Earnings Per Share*	Dividends Per Share Paid From Earnings	
		Amount*	%
(Pesos)			
1972/73	1.11	.41	31
1973/74	1.79	.55	31
1974/75	2.11	1.21†	50
1975/76	1.23	2.11	50
1976/77	1.13	2.21	50

*Adjusted in all periods for stock split in October 1977 increasing outstanding shares to 70,000,000.

†Excludes special dividend of Ps.99,990,000 declared in October 1975.



Aurrera operates 27 Vips family-style restaurants.

As of January 28, 1978, Jewel owned 31,634,538 Aurrera shares or 45.2% of the total shares outstanding. The shares of Aurrera have been trading on the Mexican Stock Exchange since December of 1976. On January 27, 1978, the shares closed at 47 pesos (approximately \$2.07) per share.

In recent years, Mexico has been tested by many difficult economic challenges. The inner strength of the Mexican people and the stability of their government combined to meet those challenges. The confidence of the Mexican people is apparent today in their optimism about their future as an important oil exporting nation as well as in their shopping for consumer goods. Accordingly, Aurrera's sales and profit expectations are high for the year ahead.

Management's Analysis of Earnings

Jewel Companies, Inc.

1977 Compared to 1976

Total sales increased 9.9% over 1976 due primarily to an 11.3% increase in the four supermarket companies. Sales in identical units increased 6.4% with the balance of the increase relating to new facilities.

Cost of goods sold, which consists principally of product costs, increased at a proportionately slower rate than sales in the four supermarket companies.

Selling, general and administrative expenses increased 12.4% reflecting continued upward cost pressures in excess of volume increases, particularly in promotional expense, direct store payroll, payroll taxes and retirement and profit sharing costs.

Operating earnings increased 3.5%. Operating earnings for the Company's supermarket division increased 24% with the principal gain relating to Jewel Food Stores. General merchandise operating earnings declined 16%, all of which was attributable to Turn*Style. Lower profits in the Direct Marketing Division and Mass Feeding Corporation, as well as start-up expenses for Jewel T limited-line discount grocery stores, respectively, impacted operating earnings from other operations.

Interest expense of Jewel Companies, Inc. increased 5.6% reflecting increased interest rates on short-term and new long-term debt. Interest expense of the Company's affiliated real estate corporations increased 8.2% primarily as a result of additional financings for new stores opened during the year.

Income taxes decreased 30.8% reflecting lower domestic earnings in 1977 and an increase in investment tax credits of \$2,108,000 resulting from higher capital expenditures.

Earnings of U.S. companies decreased 8.5% from 1976, caused by losses on facility dispositions in the amount of \$9,242,000 recorded in 1977. These losses included a provision of \$7,300,000 for the planned sale of substantially all of the assets of the Turn*Style stores to The May Department Stores Company and the closing of the Indianapolis Turn*Style stores and Star Market's Dorothy Muriel Bakery.

The Company's equity in earnings and translation gains of Aurrera, S.A. decreased 60% in 1977 because of the impact of the devaluation of the Mexican peso on September 1, 1976. As a result, Jewel's equity in Aurrera's peso earnings was translated at an average rate of 4.1¢ in 1977 as compared to 6.3¢ in 1976. In addition, the 1976 results were favorably impacted by gains resulting from the initial effect of the peso devaluation.

Net earnings decreased 25.5% from 1976. In summary, moderately higher operating earnings were offset by a substantial increase in losses on facility dispositions and a significant decrease in the Company's equity in earnings and translation gains of Aurrera, S.A. as discussed above.

1976 Compared to 1975

Sales increased 5.8% from 1975, with most of the increase coming from existing units. Net new area added was the lowest in over a decade. As price inflation abated, especially for meat products, more of the sales increases resulted from increased physical volume. Cost of goods sold increased 4.6% as gross margins improved from 1975's depressed levels, especially in Jewel Food Stores. Chicago area supermarkets reverted to more customary forms of promotional competition during 1976.

Selling, general and administrative expenses increased 10%. Payroll and benefit costs related principally to union wage agreements continued to increase at a faster rate than sales. Utility cost increases moderated compared to the two prior years as continued conservation efforts mitigated continuing rate increases.

Losses on facility dispositions in 1976 consist of the costs associated with closing the Brigham's candy plant.

Interest expense for Jewel Companies, Inc. decreased 15% after a 19% decrease in 1975 largely because of lower short-term interest rates. Interest expense incurred by the Company's affiliated real estate corporations increased 6%. Repayments on existing real estate affiliate debt nearly matched new debt, but the average rate on these long-term obligations continued to move upward as the older, lower-cost loans mature.

Compared to an increase in pre-tax U.S. earnings of 24%, the provision for income taxes increased 42% from 1975 when unusual factors cut the effective U.S. tax rate substantially. The investment tax credit was lower, both in dollars and as a percentage to pre-tax accounting earnings, and 1976 also did not benefit from the utilization of excess foreign tax credits.

The Company's equity in earnings of Aurrera, S.A. increased 16% over 1975. The continued increases in peso earnings of this Mexican retailer did not entirely compensate for lower rates for foreign exchange conversion after September 1, and earnings recorded in the last half of the year were lower than 1975. Aurrera has consistently and intentionally operated with more current and long-term liabilities than current assets; the equity in unrealized translation gains/losses resulting from this net liability position is reflected in Jewel's earnings. Jewel's equity in these unrealized translation gains contributed 29¢ per share to net earnings in 1976; this item was not present in 1975.

Net earnings increased 26% from 1975. In summary, partial recovery of Jewel Food Stores' earnings from the depressed levels of 1975 and continued improvement in the earnings of Osco Drug, Turn*Style, Direct Marketing, Mass Feeding and White Hen Pantry added to U.S. earnings growth with Eisner, Star Markets and Brigham's contributing less than in the prior year. The contribution to earnings from Aurrera was \$1.05 per share compared to \$.66 in 1975.

Summary of Significant Accounting Policies

Principles Applied in Consolidation

The consolidated financial statements include the accounts of Jewel Companies, Inc., its wholly-owned subsidiaries and its affiliated real estate corporations.

All significant intercompany transactions are eliminated.

Inventories

Inventories are valued at the lower of cost or market, with cost being determined on a first-in, first-out or weighted average basis.

Investment in Aurrera, S.A.

The Company's investment in Aurrera, S.A. (Mexico), 45.2% owned as of January 28, 1978 and 46.5% owned as of January 29, 1977, is carried at cost plus equity in undistributed earnings since acquisition.

The excess of cost over acquired net assets is not being amortized because in the opinion of management there has been no diminution in value.

Translation of Foreign Currencies

Property, plant and equipment and related depreciation are translated at the exchange rates in effect at the date these assets were acquired. All other assets and liabilities are translated at the rates of exchange in effect at the close of the period. Revenues and expenses are translated at the average monthly exchange rates which were in effect during the year, except for depreciation and amortization which are translated at the rates of exchange which were in effect when the respective assets were acquired. Dividends are translated at the rate of exchange in effect when received. Unrealized gains and losses from foreign currency translation are included in net earnings.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed on the straight-line method for financial statement purposes and on accelerated methods for tax purposes. Leasehold improvements are amortized over the shorter of estimated physical life or the term of the lease. Useful lives approximate 37 years for buildings, 17 years for leasehold improvements, 10 years for equipment and 3-6 years for transportation equipment.

The Company maintains its properties in good and serviceable condition. The cost of maintenance and repairs which do not extend the life of the assets is charged against earnings while major enlargements, remodelings or improvements are capitalized.

The cost of property, plant and equipment is eliminated from the accounts at the time assets are sold or retired. Gains and losses on normal equipment dispositions are recorded in the accumulated depreciation account for the respective asset group. The cost of replacements is capitalized and depreciated over estimated useful lives.

Income Taxes

The Company recognizes investment tax credits as a reduction in Federal income tax expense in the year eligible equipment purchases are made.

Other Deferred Liabilities

Costs associated with the Company's contingent compensation plans and self-insurance program are charged against current earnings. The portion of such costs estimated to be payable in the ensuing year is included in Current Liabilities with the balance included in Other Deferred Liabilities.

Pre-opening Costs

The Company charges expenses incurred prior to the opening of a new retail unit or other facility against earnings as they are incurred, including interest and carrying costs on construction in progress and land held for future use.

Profit Sharing and Retirement Costs

A majority of the Company's employees who meet service requirements are covered by profit sharing plans under which the Company makes annual contributions, determined by a formula related to earnings, to provide retirement benefits. The market value of these funds, which are held in trust apart from Company funds, was \$273,000,000 at December 31, 1977 and \$268,000,000 at December 31, 1976. Retirement benefits are based on each participant's share of the trust funds. There are no unfunded liabilities under these plans. Pursuant to collective bargaining agreements the Company makes payments to industry pension plans for the purpose of providing retirement benefits to other employees.

Statements of Earnings

Jewel Companies, Inc.

52 Weeks Ended	Jan. 28, 1978	Jan. 29, 1977
<i>(In thousands except per share figures)</i>		
Sales	\$3,277,742	\$2,981,429
Cost of Doing Business:		
Cost of goods sold	2,580,499	2,356,611
Selling, general and administrative expenses	636,071	565,731
	<u>3,216,570</u>	<u>2,922,342</u>
Operating Earnings	61,172	59,087
Losses on Facility Dispositions	(9,242)	(1,289)
Interest Income	781	836
Interest Expense:		
Jewel Companies, Inc.	(8,599)	(8,143)
Real estate affiliates	<u>(10,523)</u>	<u>(9,725)</u>
Earnings of U.S. Companies Before Income Taxes	33,589	40,766
Income Taxes	<u>11,528</u>	<u>16,657</u>
Earnings of U.S. Companies	22,061	24,109
Equity in Aurrera, S.A.:		
Earnings	4,786	8,747
Unrealized gain on foreign currency translation	<u>103</u>	<u>3,309</u>
Net Earnings	<u>\$ 26,950</u>	<u>\$ 36,165</u>
Earnings per Average Common Share Outstanding:		
Earnings of U.S. Companies	\$ 1.90	\$ 2.09
Equity in Aurrera, S.A.:		
Earnings .....	.41	.76
Unrealized gain on foreign currency translation	<u>.01</u>	<u>.29</u>
Net Earnings	<u>\$ 2.32</u>	<u>\$ 3.14</u>

Statements of Retained Earnings

Balance, Beginning of Year	\$ 237,802	\$ 216,370
Net Earnings	26,950	36,165
Cash Dividends Declared:		
Preferred stock—\$3.75 per share	(50)	(52)
Common stock—\$1.30 per share in 1977; \$1.275 in 1976	<u>(15,066)</u>	<u>(14,681)</u>
Balance, End of Year	<u>\$ 249,636</u>	<u>\$ 237,802</u>

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

Statements of Financial Position

Jewel Companies, Inc.

	Jan. 28, 1978	Jan. 29, 1977
<i>(In thousands)</i>		
Assets		
Current Assets:		
Cash	\$ 26,893	\$ 21,092
Short-term investments	32,848	8,582
Accounts receivable, less allowances (\$2,364,000 and \$1,959,000, respectively)	34,131	31,350
Inventories	257,435	239,806
Prepaid expenses and supplies	11,436	11,166
Total current assets	362,743	317,996
Investment in Aurrera, S.A.	47,169	46,210
Other Assets	4,256	3,526
Property, Plant and Equipment, net:		
Jewel Companies, Inc.	291,637	278,808
Real estate affiliates	174,813	165,128
Total property, plant and equipment	466,450	443,936
	<u>\$880,618</u>	<u>\$811,668</u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	\$109,423	\$100,547
Payrolls and other accrued expenses	115,567	95,811
Income taxes payable	4,525	11,135
Current maturities of long-term debt:		
Jewel Companies, Inc.	5,318	5,144
Real estate affiliates	7,010	6,738
Total current liabilities	241,843	219,405
Long-Term Debt, less current maturities:		
Jewel Companies, Inc.	109,899	93,874
Real estate affiliates	126,511	118,922
Deferred Income Taxes	47,982	43,182
Other Deferred Liabilities	18,141	13,099
Shareholders' Equity:		
Preferred stock—3-3 4% cumulative \$100 par value—authorized and issued 16,500 shares at January 28, 1978	1,650	1,650
Common stock—\$1 par value—authorized 25,000,000 shares, issued 11,600,900 shares at January 28, 1978	85,150	83,892
Retained earnings	249,636	237,802
Treasury stock, at cost	(194)	(158)
Total shareholders' equity	336,242	323,186
	<u>\$880,618</u>	<u>\$811,668</u>

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

Statements of Changes in Financial Position

Jewel Companies, Inc.

52 Weeks Ended	Jan. 28, 1978	Jan. 29, 1977
<i>(In thousands)</i>		
Source of Funds—		
From operations:		
Net earnings	\$ 26,950	\$ 36,165
Charges and (credits) not affecting funds:		
Depreciation and amortization	48,260	43,359
Deferred taxes and other deferred liabilities	9,842	1,603
Equity in earnings of Aurrera, S.A. in excess of dividends received	(2,346)	(5,889)
Equity in unrealized translation gains	(103)	(3,309)
	<u>82,603</u>	<u>71,929</u>
From financing:		
Issuance of common stock	1,222	949
Long-term debt:		
Jewel Companies, Inc.	50,000	—
Real estate affiliates	15,040	7,513
	<u>\$148,865</u>	<u>\$ 80,391</u>
Use of Funds—		
Dividends to shareholders	\$ 15,116	\$ 14,733
New property, plant and equipment (net)	70,774	51,922
Repayment of long-term debt:		
Jewel Companies, Inc.	33,975	4,134
Real estate affiliates	7,451	6,932
Other	(760)	(2,378)
Increase in working capital	<u>22,309</u>	<u>5,018</u>
	<u>\$148,865</u>	<u>\$ 80,391</u>
Change in Working Capital—		
Increase (decrease) in current assets:		
Cash	\$ 2,801	\$ (-1,972)
Short-term investments	24,266	277
Accounts receivable	(219)	5,207
Inventories	17,629	23,739
Prepaid expenses and supplies	270	2,183
	<u>44,747</u>	<u>26,434</u>
Increase (decrease) in current liabilities:		
Accounts payable	8,876	5,583
Payrolls and other accrued expenses	19,726	5,547
Income taxes payable	(6,610)	9,756
Current maturities of long-term debt	446	500
	<u>22,438</u>	<u>21,386</u>
Increase in working capital	<u>\$ 22,309</u>	<u>\$ 5,018</u>

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

Report of Independent Certified Public Accountants

To the Shareholders and Board of Directors,
Jewel Companies, Inc.

We have examined the consolidated statements of financial position of Jewel Companies, Inc. at January 28, 1978 and January 29, 1977 and the related statements of earnings, retained earnings and changes in financial position for the fifty-two week periods then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have not examined the financial statements of Aurrera, S.A., a Mexican company in which Jewel has a 45.2% interest at January 28, 1978. The consolidated financial statements of Aurrera, S.A. for its fiscal years ended July 31, 1977 and 1976 were examined by other independent auditors whose unqualified report thereon has been furnished to us.

In our opinion, which as to amounts with respect to Aurrera, S.A. for its fiscal years ended July 31, 1977 and 1976 is based on the report of other independent auditors described above, the financial statements referred to above present fairly the consolidated financial position of Jewel Companies, Inc. at January 28, 1978 and January 29, 1977, the results of its operations and the changes in its financial position for the fifty-two week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

FOUCHE ROSS & CO.

Chicago, Illinois
March 17, 1978

Notes to Financial Statements

Jewel Companies, Inc.

Property, Plant and Equipment

The Company's investment in property, plant and equipment consists of the following:

	January 28, 1978		January 29, 1977	
	Jewel Cos., Inc.	Real Estate Affiliates	Jewel Cos., Inc.	Real Estate Affiliates
(In thousands)				
Buildings	\$ 47,231	\$153,647	\$ 49,159	\$143,102
Less allowance for depreciation	19,872	33,521	18,484	29,407
	<u>27,359</u>	<u>120,126</u>	<u>30,675</u>	<u>113,695</u>
Equipment and leasehold improvements	185,632		110,749	
Less allowance for depreciation and amortization	240,335		215,238	
	<u>215,297</u>		<u>225,511</u>	
Land	18,981	51,687	22,622	51,433
	<u>\$291,637</u>	<u>\$171,813</u>	<u>\$278,808</u>	<u>\$165,128</u>

Short-Term and Long-Term Debt

Debt shown in the statements of financial position consists of the following:

	Jan. 28, 1978	Jan. 29, 1977
(In thousands)		
Jewel Companies, Inc.:		
Short-term Notes, 1.81% average rate	\$ —	\$ 28,663
Commercial Banks, 1.50% due in annual installments of \$1,250 through 1987	12,500	13,750
Insurance Companies:		
6.875%, due in annual installments of \$1,500 through 1993	21,000	25,500
7.875%, due in annual installments of \$1,500 through 1994	25,500	27,000
8.25%, due in semi-annual installments of \$1,500 from 1983 through 1997 with the balance due in 1997	50,000	—
All Other, 5.57% and 5.13% average rate, due through 1997	3,217	1,105
Total debt	<u>\$115,217</u>	<u>\$ 99,018</u>
Classified as follows:		
Current maturities	\$ 5,318	\$ 5,144
Long-term debt	109,899	93,874
Total debt	<u>\$115,217</u>	<u>\$ 99,018</u>
Real estate affiliates, mortgages, 8.13% and 8.11% average rate, due through 2001		
Current maturities	\$ 7,010	\$ 6,738
Long-term debt	126,511	118,922
Total debt	<u>\$133,521</u>	<u>\$125,660</u>

Notes to Financial Statements

(Continued)

Long-term debt at January 28, 1978 matures as follows:

	Jewel Cos., Inc.	Real Estate Affiliates
	(In thousands)	
1979	\$ 4,571	\$ 7,296
1980	4,589	7,454
1981	4,607	7,419
1982	4,608	7,551
1983 and thereafter	91,524	96,791
	<u>\$109,899</u>	<u>\$126,511</u>

During 1977, the Company received \$50,000,000 under a new 8.25% loan agreement with two insurance companies. The terms of the agreement provide for semi-annual principal payments of \$1,500,000 commencing July 1, 1983 with the balance of \$6,500,000 payable in 1997. In conjunction with the new loan agreement, the Company canceled its previous \$60,000,000 bank credit agreement.

Lines of credit are maintained with commercial banks (\$87,000,000 at January 28, 1978) to assure the availability of adequate short-term funds to meet seasonal borrowing requirements. The bank lines are supported by cash balances at the line banks. The arrangements with the banks are informal in nature; the supporting balances are largely generated from the normal time lag in presentation of Company checks for payment and do not restrict the availability of such supporting funds in meeting the Company's daily cash requirements.

The maximum amount of seasonal borrowings outstanding on any day during 1977 was \$92,000,000 and averaged \$46,000,000 on a weekly basis. The average weekly interest rate on these borrowings was 5.46%.

The Company's loan agreements provide restrictions as to the maintenance of working capital (as defined) and payment of cash dividends on common stock. As of January 28, 1978, net working capital was approximately \$32,000,000 in excess of minimum requirements and retained earnings not restricted for cash dividends were \$42,000,000.

The long-term debt of the real estate affiliates is not a direct obligation of Jewel Companies, Inc. but is secured by the assignment of lease agreements between Jewel and the affiliates and first liens against real properties having a book value of approximately \$175,000,000 at January 28, 1978, as compared to \$165,000,000 at January 29, 1977. The debt will be fully paid during the fixed term of each lease, generally 20 years.

Income Taxes

The provision for income taxes consists of the following:

	52 Weeks Ended	
	Jan. 28, 1978	Jan. 29, 1977
	(In thousands)	
Federal		
Currently payable	\$14,933	\$15,488
Deferred	84	2,551
Investment tax credit	(5,300)	(3,192)
	<u>9,717</u>	<u>14,847</u>
State and Local		
Currently payable	1,829	1,506
Deferred	(18)	304
	<u>1,811</u>	<u>1,810</u>
	<u>\$11,528</u>	<u>\$16,657</u>

Deferred income taxes result from timing differences in the recognition of certain income and expense items for tax and financial statement purposes, as follows:

	1977	1976
	(In thousands)	
Depreciation	\$4,778	\$4,380
Losses on facility dispositions	(3,083)	(528)
Self-insured claims	(1,831)	(1,026)
Other	220	(275)
	<u>\$ 84</u>	<u>\$2,551</u>

The Federal effective tax rate was 26.5% in 1977 and 29.1% in 1976. A reconciliation of the statutory corporate tax rate with the effective tax rate follows:

	1977	1976
Statutory tax rate	48.0%	48.0%
Investment tax credit	(14.5)	(6.3)
Other	(.3)	(.9)
Effective tax rate on U.S. earnings	33.2	40.8
Effect of foreign earnings	(6.7)	(11.7)
Effective tax rate	<u>26.5%</u>	<u>29.1%</u>

No provision has been made for U.S. income taxes on foreign earnings because any income tax payable would be substantially offset by foreign tax credits.

An examination of the Federal income tax returns of the Company and its subsidiaries for fiscal years 1973 through 1975 is in process. While the outcome of the current examination is not determinable at this time, income tax reserves are considered adequate for any assessments that might arise.

Capital Stock

Common stock transactions were as follows:

	1977		1976	
	Shares	Amount	Shares	Amount
<i>(In thousands)</i>				
Balance, beginning of year ..	11,537	\$83,892	11,490	\$82,939
Issued for stock option and stock purchase plans	64	1,258	47	953
Balance, end of year	<u>11,601</u>	<u>\$85,150</u>	<u>11,537</u>	<u>\$83,892</u>

At January 28, 1978, there were 1,072,166 shares of common stock reserved of which 760,879 were for Stock Options, 228,042 were for the Employee Stock Purchase Plan and 83,245 were for the Automatic Dividend Reinvestment and Stock Purchase Plan.

The following summary shows the changes in stock options:

	1977	1976
Options outstanding, beginning of year ..	712,850	706,500
Granted	139,500	84,000
Exercised	(31,762)	(4,950)
Expired	<u>(77,338)</u>	<u>(72,700)</u>
Options outstanding, end of year	<u>743,250</u>	<u>712,850</u>
	Jan. 28, 1978	Jan. 29, 1977
Options exercisable	585,750	553,235
Shares available for grant	17,629	79,791

Outstanding options were granted at prices ranging from \$16.88 to \$28.42 per share, the fair market value on the date of grant. Qualified Stock Options become exercisable in equal installments over a four-year period and expire five years from the date of grant. Non-qualified Stock Options become exercisable in one year from the date of grant and expire in ten years.

Under the Company's Automatic Dividend Reinvestment and Stock Purchase Plan, shareholders of record can purchase additional shares of common stock by reinvesting dividends and making optional cash investments without payment of any brokerage commission or service charge.

The Company's Certificate of Incorporation provides for a class of junior preferred stock designated as Preferred Stock, Issuable in Series, Par Value \$1 Per Share, in the amount of 2,000,000 shares. At January 28, 1978, none of the shares have been issued.

Treasury stock consists of 3,169 shares of preferred stock valued at cost. These shares were acquired to meet the sinking fund provisions of the issue, which require full retirement by 1985. Sinking fund requirements are satisfied through 1980.

Lease Commitments

The Company leases certain of its retail and other locations under firm-term lease arrangements ranging from 5 to 25 years (principally 15 years for retail locations), plus various renewal options. Rentals for leased real properties (excluding those leased from real estate affiliates) were \$30,755,000 in 1977 and \$28,638,000 in 1976, after reduction for sublease income of \$1,632,000 and \$1,227,000, respectively. Included in net rental expense are \$3,570,000 in 1977 and \$3,392,000 in 1976 of rentals determined by sales volume. As of January 28, 1978, minimum rentals on all non-cancellable leases for real properties were as follows:

Year	Lease Expense	Sublease Income	Net
<i>(In thousands)</i>			
1978	\$29,558	\$1,754	\$27,801
1979	28,804	1,606	27,198
1980	27,725	1,321	26,401
1981	26,507	1,098	25,409
1982	24,552	863	23,689
1983—1987 (per year)	20,513	617	19,896
1988—1992 (per year)	12,156	321	11,832
1993—1997 (per year)	3,119	50	3,069
1998—2000 (per year)	665		665

Under the provisions of Statement of Financial Accounting Standards No. 13, "Accounting for Leases", certain leases currently considered to be operating leases will be retroactively restated as capital leases at a future date. If these leases had been treated as capital leases at January 28, 1978 and January 29, 1977, leased property under capital leases, net of accumulated amortization, would have been approximately \$34,169,000 and \$34,018,000, respectively, while obligations under capital leases would have been \$40,382,000 and \$39,459,000, respectively, and net earnings would have been decreased by approximately \$316,000 in 1977.

Business Segments

The Company is a diversified retailer engaged primarily in the retail sale of food and general merchandise. The Company is engaged in the supermarket business under the Buttrely, Eisner, Jewel and Star trade names and in the general merchandise business under the Osco Drug, Turn*Style and Republic Lumber trade names. Other operations include White Hen Pantry (convenience stores), Brigham's (ice cream, candy and sandwich stores), Mass Feeding Corporation (school lunch programs) and the Direct Marketing Division (home shopping service and manufacturing operations).

Operating earnings are total sales less operating expenses. In computing operating earnings, none of the following items have been added or deducted: unallocated expenses, losses on facility dispositions, interest income, interest expense, income taxes, equity in earnings of Aurrera, S.A. and unrealized gains on foreign currency translation.

Notes to Financial Statements

(Continued)

Identifiable assets are those assets identifiable to a particular segment either by direct use or by allocation when used by two or more segments.

Information concerning the Company's sales and operating earnings by business segment is presented in the Five Year Review on page 31; a summary of identifiable assets, capital expenditures and depreciation expense for fiscal 1977 and 1976 is shown below:

	1977	1976
	(In thousands)	
Identifiable Assets		
Supermarkets	\$514,391	\$487,962
General merchandise	219,816	203,315
Other operations	61,192	56,849
Investment in Aurrera, S.A.	47,169	46,210
Corporate	38,050	17,332
Total identifiable assets	<u>\$880,618</u>	<u>\$811,668</u>
Capital Expenditures (net)		
Supermarkets	\$ 47,071	\$ 41,263
General merchandise	17,397	9,884
Other operations	4,643	1,245
Corporate	1,663	(470)
Total capital expenditures	<u>\$ 70,774</u>	<u>\$ 51,922</u>
Depreciation Expense		
Supermarkets	\$ 33,840	\$ 30,414
General merchandise	9,482	7,916
Other operations	4,215	4,229
Corporate	723	800
Total depreciation expense	<u>\$ 48,260</u>	<u>\$ 43,359</u>

Contingent Liabilities—Litigation

In addition to claims and lawsuits arising in the normal course of the Company's business, as of January 28, 1978, there were various actions pending against the Company for substantial damages under antitrust laws. These include fourteen antitrust actions filed in 1975, 1976 and 1977 alleging price fixing in the purchase and sale of beef. Plaintiffs in one of these seek to maintain a class action. All of these actions have been consolidated for pre-trial and discovery purposes in the U.S. District Court in Dallas, Texas. In December, 1977, the Court dismissed seven of these actions on the basis of the U.S. Supreme Court's decision in the *Illinois Brick* case that only direct sellers and purchasers could recover damages under federal antitrust laws; appeals have been filed in six of these seven cases and Congress is considering legislation which would overturn the *Illinois Brick* decision, including proposals designed to reinstate actions dismissed on the basis of that decision. Complaints in the remaining seven actions, filed in 1977, include some allegations which were not made in earlier cases. Since the proceedings are in their preliminary stages and in view of the complexity of the factual, economic and legal theories involved and the uncertainties inherent in litigation, the Company cannot predict their ultimate outcome. The Company believes, however, that it has good and meritorious defenses to each action.

The Company is of the opinion with respect to all claims and lawsuits that any resulting liability will not materially affect the Company's consolidated earnings or financial position.

Costs and Expenses

Set forth below is a comparative summary of significant costs and expenses:

	1977	1976
	(In thousands)	
Depreciation and Amortization		
Jewel Companies, Inc.		
Buildings	\$ 1,472	\$ 1,325
Equipment	41,930	37,512
	43,402	38,867
Real estate affiliates		
Buildings	4,858	1,492
	<u>\$48,260</u>	<u>\$43,359</u>
Taxes, other than income		
Payroll	\$34,168	\$28,750
Property	14,995	13,534
Other	2,750	2,729
	<u>\$51,913</u>	<u>\$45,013</u>
Rents		
Real estate	\$30,755	\$28,638
Personal property	4,803	4,768
	<u>\$35,558</u>	<u>\$33,406</u>
Advertising	<u>\$12,655</u>	<u>\$40,692</u>
Retirement Benefit Plans		
Profit sharing plans	\$11,190	\$10,114
Contingent compensation	1,656	1,351
Industry pension plans and other	3,711	2,157
	<u>\$16,557</u>	<u>\$13,922</u>

Losses on Facility Dispositions

On March 7, 1978 the Company reached an agreement in principle with The May Department Stores Company under which the Venture Division of May will acquire substantially all of the assets of the Company's Turn*Style self-service department stores. The transaction, which is subject to completion of definitive agreements, is to be effective not later than June 1, 1978.

Other significant facility dispositions during 1977 included the closing of the Indianapolis Turn*Style stores and Star Market's Dorothy Muriel Bakery on December 31, 1977.

Non-recurring pre-tax losses on the above transactions aggregated \$9,242,000, of which \$7,300,000 relates to the pending sale of Turn*Style assets to The May Department Stores Company.

Costs associated with closing the Brigham's candy plant in December, 1976 in the amount of \$1,289,000 have been reclassified to conform with the 1977 presentation.

Estimated Replacement Cost Data (Unaudited)

The Securities and Exchange Commission requires large companies to estimate certain replacement cost information on inventories, productive capacity (property, plant and equipment, excluding land) and related depreciation and amortization, as well as the cost of goods sold. However, it intentionally determined not to require the disclosure of the effect on net earnings of such calculations both because there are substantial theoretical problems in determining an earnings effect and because it did not believe that users should be encouraged to convert the data into a single revised net earnings figure. In addition, because of the subjective judgments and many different specific factual circumstances involved, the data may not be comparable among companies and is subject to errors of estimation.

Property, plant and equipment replacement costs were largely estimated from unit costs considered typical in each year. Following is a summary of the estimated replacement costs for property, plant and equipment:

	1977		1976	
	Reported Historical Amounts	Estimated Replacement Cost (Unaudited)	Reported Historical Amounts	Estimated Replacement Cost (Unaudited)
<i>(In thousands)</i>				
buildings and equipment	\$686,510	\$964,000	\$633,010	\$887,000
less accumulated depreciation	<u>293,728</u>	<u>416,000</u>	<u>263,129</u>	<u>386,000</u>
net buildings and equipment	<u>\$392,782</u>	<u>\$548,000</u>	<u>\$369,881</u>	<u>\$501,000</u>
depreciation and amortization:				
Charged to cost of goods sold	\$ 17,345	\$ 24,000	\$ 15,562	\$ 23,000
Charged to selling, general and administrative expense ..	<u>30,915</u>	<u>38,000</u>	<u>27,797</u>	<u>37,000</u>
	<u>\$ 48,260</u>	<u>\$ 62,000</u>	<u>\$ 43,359</u>	<u>\$ 60,000</u>

Inventories and cost of goods sold at replacement cost were estimated primarily based on internally generated and published price indices. The estimated impact of inflation on the Company's inventories and cost of goods sold is insignificant because of the rapid inventory turnover.

Further explanation is included in the Company's Annual Report to the SEC (Form 10-K) which is available upon request.

Quarterly Data (Unaudited)

Quarter	Total Sales	Gross Profit	Net Earnings	
			Total	Per Share
<i>(In thousands, except per share figures)</i>				
<i>1977</i>				
First (12 weeks)	\$ 719,547	\$150,165	\$ 5,633	\$.49
Second (16 weeks)	978,714	205,786	7,775	.67
Third (12 weeks)	749,251	155,607	3,231	.27
Fourth (12 weeks)	<u>830,230</u>	<u>185,685</u>	<u>10,311</u>	<u>.89</u>
Total Year	<u>\$3,277,742</u>	<u>\$697,243</u>	<u>\$26,950</u>	<u>\$2.32</u>
<i>1976</i>				
First (12 weeks)	\$ 647,105	\$132,521	\$ 5,042	\$.44
Second (16 weeks)	891,685	187,677	9,479	.82
Third (12 weeks)	673,345	135,511	8,782	.76
Fourth (12 weeks)	<u>769,294</u>	<u>169,109</u>	<u>12,862</u>	<u>1.12</u>
Total Year	<u>\$2,981,429</u>	<u>\$624,818</u>	<u>\$36,165</u>	<u>\$3.14</u>

Common Stock Data (Unaudited)

Quarter	Price Range*				Dividends Paid	
	1977		1976		1977	1976
	High	Low	High	Low		
First	\$26½	\$22½	\$24¼	\$20	\$.325	\$.300
Second	24¾	21½	23½	19¼	.325	.300
Third	23¾	19¼	24	21¼	.325	.325
Fourth	20½	18½	24	21	.325	.325
Year	<u>\$26½</u>	<u>\$18½</u>	<u>\$24¼</u>	<u>\$19¼</u>	<u>\$1.300</u>	<u>\$1.250</u>

*On the New York Stock Exchange.

Notes to Financial Statements

(Continued)

Condensed Financial Statements—Aurrera, S.A. (Unaudited)

The Company had a 45.2% and 46.5% interest in Aurrera, S.A. as of January 28, 1978 and January 29, 1977, respectively. Jewel's investment, carried on the equity method, constituted 5.4% and 5.7% of its total assets at those respective dates. Jewel's equity in earnings and unrealized gains on foreign currency translation constituted 18.1% and 33.3% of Jewel's consolidated net earnings for the fifty-two weeks ended January 28, 1978 and January 29, 1977, respectively.

To facilitate prompt reporting of year-end results, the Company changed its method of reporting its equity in earnings of Aurrera to record those earnings on a one month

Statements of Financial Position

	December 31, 1977	January 31, 1977
(In thousands)		
Aurrera (in Pesos)		
Current assets	Ps. 1,681,865	Ps. 1,126,389
Properties, net	1,309,057	1,307,199
Total assets	2,990,922	2,433,888
Current liabilities	1,908,099	1,504,710
Long-term debt	15,596	17,123
Net assets	Ps. 1,067,227	Ps. 912,055
U.S. Translation	\$ 81,961	\$ 79,037

Reconciliation to Jewel's Investment

Equity in book value of net assets at 45.2% in 1977 and 46.5% in 1976	\$ 38,396	\$ 36,793
Adjustments to Jewel's accounting practices		
Cumulative income adjustments	711	1,295
Reorganization adjustments not recognized by Jewel	(5,515)	(5,891)
Excess of cash investment over net assets	13,601	11,013
Carrying value of investment	\$ 47,169	\$ 46,210

delay. As a result, the Company's earnings for its fiscal year ended January 28, 1978, the year of transition, include only eleven months of earnings from Aurrera. The effect of this change was to decrease net earnings by \$256,000.

The financial statements of Aurrera, S.A. at December 31, 1977 and January 31, 1977 are based upon audited financial statements examined by a major international public accounting firm as of July 31, 1977 and 1976, the end of Aurrera's fiscal year, and unaudited financial statements for the periods from August 1 to December 31, 1977 and January 31, 1977, respectively. Following is a condensed summary of Aurrera's statements of financial position and statements of earnings for fiscal years 1977 and 1976:

Statements of Earnings

	Eleven Months Ended December 31, 1977	Year Ended January 31, 1977
(In thousands)		
Aurrera (in Pesos)		
Sales	Ps. 8,133,684	Ps. 6,063,981
Earnings before statutory profit sharing and income taxes	596,043	669,043
Statutory profit sharing	(43,763)	(51,106)
Income taxes	(233,013)	(275,116)
Net earnings—Aurrera statements	Ps. 319,267	Ps. 342,821
U.S. Translation	\$ 13,056	\$ 21,612

Reconciliation to Jewel's Equity in Net Earnings

Equity in net earnings per Aurrera statements	\$ 5,911	\$ 10,185
Adjustments to Jewel's accounting practices	(567)	(712)
Dividend withholding tax provided	(561)	(1,026)
Equity in net earnings of Aurrera, S.A.	\$ 4,783	\$ 8,447
Jewel's equity in unrealized gain on foreign currency translation	\$ 103	\$ 3,309

Event Subsequent to Date of Auditor's Report

On April 3, 1978, the Company announced an agreement in principle with Skaggs Companies, Inc. for the combination of the two companies on a tax free basis. The new company will be called Jewel Companies, Inc.

The agreement calls for Skaggs shareholders to receive one share of the new Jewel Companies, Inc. common stock for each share of Skaggs common stock and for Jewel shareholders to receive .86 shares of the new common stock for each share of current Jewel common stock. Alternatively, current Jewel shareholders would have an option to elect to receive a package of securities consisting of .284 shares of the new common stock and .513 shares of a new cumulative preferred stock. The new common and preferred shares would be allocated or prorated among individual shareholders, giving max-

imum possible effect to their elections, as necessary to result in the issuance of 3,166,000 new preferred shares. The initial quarterly dividend on the new common stock is planned to be at an annual rate of 80¢; the new preferred stock would have a stated value of \$25.00 and an annual dividend of \$2.25.

The transaction is subject to the execution of a definitive merger agreement, approvals by the Boards of Directors and shareholders of both companies, and any required governmental approvals.

Skaggs, with fiscal 1977 sales of \$902.2 million and net income of \$20.1 million, operates drug stores and combination drug food super-centers, principally in the West and Southwest.

Five Year Review

Jewel Companies, Inc.

	1977	1976	1975	1974	1973
(Millions of dollars, except per share figures)					
Operating Results					
Sales:					
Supermarkets	\$2,419.5	\$2,173.6	\$2,065.9	\$1,905.1	\$1,631.4
General merchandise stores	654.9	617.4	565.9	502.4	438.1
Other operations	203.3	190.4	186.0	191.4	150.1
Total sales	3,277.7	2,981.4	2,817.8	2,598.9	2,219.6
Operating earnings before unallocated expenses:					
Supermarkets	41.0	33.0	31.0	52.5	45.2
General merchandise stores	19.2	23.0	18.0	10.5	14.5
Other operations	4.8	7.7	5.8	3.3	1.7
Total operating earnings before unallocated expenses	65.0	63.7	54.8	66.3	61.4
Unallocated—net†	(3.8)	(4.6)	(4.0)	(4.4)	(4.2)
Operating earnings	61.2	59.1	50.8	61.9	57.2
Losses on facility dispositions	(9.3)	(1.3)			
Interest income .....	.8	.8	.8	1.0	.5
Interest expense:					
Jewel Companies, Inc.	(8.6)	(8.1)	(9.6)	(11.8)	(8.0)
Real estate affiliates	(10.5)	(9.7)	(9.2)	(8.3)	(7.1)
Earnings of U.S. companies before income taxes	33.6	40.8	32.8	42.8	42.6
Income taxes	11.5	16.7	11.7	18.0	18.5
Earnings of U.S. companies	22.1	24.1	21.1	24.8	24.1
Equity in Aurrera, S.A.:					
Earnings	4.8	8.8	7.6	5.4	5.5
Unrealized gain on foreign currency translation .....	.1	3.3			
Net earnings	\$ 27.0	\$ 36.2	\$ 28.7	\$ 30.2	\$ 29.6@
Percent of shareholders' average equity	8.2%	11.6%	9.8%	11.0%	11.8%@
Depreciation and amortization	\$ 48.3	\$ 43.4	\$ 42.4	\$ 37.0	\$ 32.4
New property, plant and equipment (net)	70.8	51.9	53.5	77.9	77.5
Per Share Results*					
Earnings per common share	\$ 2.32	\$ 3.11	\$ 2.50	\$ 2.65	\$ 2.63@
Dividends paid per common share (present rate \$1.30) ..	1.30	1.25	1.20	1.15	1.11
Percent of net earnings	56%	41%	48%	44%	42%@
Equity per common share	\$ 28.87	\$ 27.89	\$ 26.06	\$ 24.78	\$ 23.25
Common Stock Information*					
Number of shareholders	14,973	15,152	14,716	14,324	13,694
Average number of shares (in thousands)	11,576	11,507	11,452	11,381	11,217
Price range — high	\$ 26½	\$ 24½	\$ 25½	\$ 29½	\$ 31½
low	18½	19½	16½	16½	18½
year end	18½	23½	21½	22½	24½
Price earnings ratio (on average price range)	9.6	6.9	8.5	8.6	10.0@
Financial Position					
Working capital	\$ 120.9	\$ 98.6	\$ 93.5	\$ 32.1	\$ 80.7
Total assets	880.6	811.7	769.9	719.2	671.6
Long-term debt, less current maturities:					
Jewel Companies, Inc.	109.9	93.9	98.0	115.5	100.7
Real estate affiliates	126.5	118.9	118.3	114.0	98.3
Common shareholders' equity	334.9	321.8	299.1	283.2	261.2
Other Statistical Data (000's)					
Employees (full-time equivalent)	35.2	35.1	35.0	35.3	34.9
Square footage of retail stores:					
Supermarkets	10,500	10,186	10,020	9,648	8,916
General merchandise stores	6,627	6,409	6,276	6,032	5,659
Other stores	898	852	845	866	813
Total at year end	18,025	17,447	17,141	16,546	15,418

*Adjusted for stock splits

@Excludes extraordinary income of \$6,746,000 or \$.60 per share.

†Unallocated consists principally of general corporate expenses and miscellaneous income.

Directors

Jewel Companies, Inc.

Raymond C. Baumhart, S.J.
President, Loyola University of Chicago

Karl D. Bays
*Chairman and Chief Executive Officer,
American Hospital Supply Corporation
(Health Products and Services)*

Silas S. Cathcart
*Chairman and Chief Executive Officer, Illinois
Tool Works, Inc. (Fasteners, Tools, Electronic
Components & Plastic Packaging Products)*

Weston R. Christopherson
President and Chief Operating Officer

George L. Clements
Retired Board Chairman and President

Lawrence E. Fouraker
Dean of Faculty, Harvard Business School

Helen LeB. Hilton
*Dean Emeritus, College of Home Economics,
Iowa State University*

Richard B. Ogilvie
Partner, Isham, Lincoln & Beale (Attorneys)

James E. Olson
*Executive Vice President, American Telephone
and Telegraph Company*

Donald S. Perkins
*Chairman, Board of Directors and Chief
Executive Officer*

Barbara Scott Preiskel
*Senior Vice President and General Attorney,
Motion Picture Association of America, Inc.*

Robert W. Reneker
*Chairman, Board of Trustees, The University
of Chicago*

Arthur W. Schultz
*Chairman and Chief Executive Officer, Foote,
Cone & Belding Communications, Inc.
(Advertising Agency)*



Committee on Salaries and Employee Benefits: (l to r) G. Clements, A. Schultz, B. Preiskel, S. Cathcart, K. Bays



Committee on Audits: (l to r) L. Fouraker, H. Hilton, R. Baumhart, S.J., R. Ogilvie, J. Olson, R. Reneker

Committees of the Board of Directors

Committee on Audits
R. C. Baumhart, S. J., Chairman
L. E. Fouraker
H. LeB. Hilton
R. B. Ogilvie
J. E. Olson
R. W. Reneker

Committee on Nominations
L. E. Fouraker, Chairman
S. S. Cathcart
R. W. Reneker

Committee on Salaries and Employee Benefits
S. S. Cathcart, Chairman
K. D. Bays
G. L. Clements
B. S. Preiskel
A. W. Schultz

Executive Committee
D. S. Perkins, Chairman
S. S. Cathcart
W. R. Christopherson
R. B. Ogilvie

Corporate Officers

Donald S. Perkins
Chairman, Board of Directors

Weston R. Christopherson
President

Lawrence Howe
Executive Vice President, Finance and Law

Clifford R. Johnson
Executive Vice President, Real Estate and Construction

Jo H. Armstrong
Vice President

John N. Balch
Vice President and Treasurer

Thomas J. Byrne
Vice President, Construction

Robert P. Dorsher
Vice President, Personnel and Industrial Relations

Lawrence J. Fernstrom, Jr.
Vice President, Information Systems

Robert D. Jones
Vice President, Public Affairs

Gene B. Kilham
Vice President and Controller

Charles E. McClellan
Vice President, Taxes

Jacob J. Schnur
Vice President and Assistant General Counsel

Robert F. Berrey
Secretary

Michael H. Alden
Assistant Secretary

Earl J. Barnes
Assistant Secretary

Lawrence A. Metz
Assistant Secretary

Oral Moody
Assistant Secretary

Charles M. Moritz
Assistant Treasurer

Officers of the Jewel Companies

Brigham's
80 Mill Street
Arlington, Massachusetts 02174

President:
Richard P. Johnson
Vice Presidents:
William F. Horgan
Jerome P. Lavelly
John F. Marchesseault
Daniel F. O'Connell

Buttrey Food Stores
501 Sixth Street, S.W.
Great Falls, Montana 59104

President:
Philip R. Palm
Vice Presidents:
Paul L. Beuthien, Jr.
Lester O. Eck
Lyle T. Gorman
Henry J. Keiper, Jr.
Eugene D. Koon
Alvin J. Larson
Harold J. Lund
Robert F. Poole
John J. Quinn
Ronald L. Slusher
Andrew Veseth

Direct Marketing Division
Jewel Park
Barrington, Illinois 60010

President
Betty M. McFadden
Group Vice Presidents:
Lance W. Devereaux
Herman T. Landon
Vice Presidents:
Neil S. Bonne
William J. Burmeister
John B. Elliff
Alvin P. Jorgensen
Garry B. King
Howard G. Koorhan
William M. Moore
A. Keith Pierson

Eisner Food & Agency Stores
301 E. Wilbur Heights Road
Champaign, Illinois 61820

President:
David L. Diana
Group Vice President:
Leland G. Wise
Vice Presidents:
Roy D. Brazelton
Donald E. Hadley
J. Patrick Johnston
Richard E. Lebo
Samuel J. Parker
Martin A. Scholtens
Controller:
Douglas D. Myers

Jewel Associates
1955 West North Avenue
Melrose Park, Illinois 60160

President:
William E. Oddy

Jewel Food Stores
1955 West North Avenue
Melrose Park, Illinois 60160

President:
Walter Y. Elsha
Executive Vice Presidents:
Arthur T. Dalton
Ronald D. Peterson
Group Vice Presidents:
Joseph V. Bugos
Edward F. Buron
Marshall J. Collins
Ronald J. Floto
Daniel E. Josephs
P. Neill Petronella
Vice Presidents:
Jane Armstrong
Larry R. Belcaster
Richard H. Bevier
James M. Chase
Andrew J. Cosentino
Francis P. Daleiden
Dean C. Danhour
Dennis K. Eck
Loren D. Galbraith
James W. Grew
Gerald L. Hansen
Thomas P. Heneghan
John R. Haugabrook
Alfred G. Jacobsma
Albert J. Kara
Johan T. Kyvik
James V. Lamonia
Ralph W. Miller, Jr.
Robert A. Neslund
William H. Newby
Robert A. Popadutch

W. Steven Rubow
Hans J. Schmucky
Harry L. Segal
John A. Shields
Raymond A. Stone
W. Charles Thor, Jr.
Frank J. Thuy, Jr.
Frank J. Tyska
James P. Walsh
Walter B. Wilson

Mass Feeding Corporation
2241 Pratt Boulevard
Elk Grove Village, Illinois 60007

President
Thomas F. Harwood
Vice Presidents:
Guy A. Graham
K. Lee Guse
Edward W. McQuiston
Stephen L. Schlecht
Controller:
James P. O'Connor

Oscro Drug, Inc.
1818 Swift Drive
Oak Brook, Illinois 60521

President:
Richard G. Cline
Executive Vice President,
Operations
Richard E. George
Vice Presidents:
John L. Benner
Jon T. Fuglestad
David F. Gillis
Ronald R. Green
Ronald E. Grove
Terry J. Hanson
Donald C. Hoscheit
William M. Jacobs, Jr.
James A. Johnson
Michael S. Kaplan
Byron K. Luke
David L. Maher
Robert C. Nakasone
John H. O'Connell
Paul E. Pentz
Robert H. Quayle III
Harold G. Raiman
Haven A. Ready
F. Peter Schliesmann, Jr.
Russell B. Wright
Herbert R. Young

Star Market Co.
625 Mt. Auburn Street
Cambridge, Massachusetts 02138

Chairman:
John M. Mugar
President:
James H. Henson
Group Vice Presidents:
Jack der Avedisian
Richard Diran
Vice Presidents:
Robert H. Jacobson
W. Bruce Krueger, Jr.
Carmen Lanza
Raymond J. Larocca
Kathryn M. Nicholson
H. Verne Powell
Walter F. Rajewski
Jeffrey K. Schaffer
Thomas P. Stemberg
James T. Wixtead

White Hen Pantry
666 Industrial Drive
Elmhurst, Illinois 60126

President:
Robert G. Robertson
Vice Presidents:
George S. Bovis
Allen S. Davis
Robert B. Knight

Jewel Companies, Inc.
O'Hare Plaza
5725 N. East River Road
Chicago, Illinois 60631

Bulk Rate
U.S. Postage
PAID
Chicago, Illinois
Permit No. 2971

